

INDEPENDENT AUDITORS' REPORT



To the Retirement Board of the Public Employee Retirement System of Idaho:

We have audited the accompanying basic financial statements of the Public Employee Retirement System of Idaho ("the System"), a component unit of the State of Idaho, as of June 30, 2002, and for the year then ended, listed in the foregoing table of contents. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements present fairly, in all material respects, the financial status of the pension funds and the financial position of the agency fund of the System as of June 30, 2002 and the changes in net assets of the pension funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the System's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the System taken as a whole. The required supplemental schedules on pages 34 through 36 and the additional supplemental schedules on pages 37 through 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. The required supplemental schedules and the additional supplemental schedules are also the responsibility of the System's management. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The Investment Section, Actuarial Section and Statistical Section listed in the Table of Contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements of the System. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2002 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 12, 2002

Management's Discussion and Analysis

Management is pleased to provide this Management's Discussion and Analysis (MD&A) of the financial activities of the Public Employee Retirement System of Idaho (PERSI) for the year ended June 30, 2002. This overview and analysis is designed to focus on current known facts and activities and resulting changes. We encourage readers to consider the information presented here in conjunction with information furnished in the Letter of Transmittal.

PERSI administers a total of four fiduciary funds. These consist of two defined benefit pension trust funds, the PERSI Base Plan and the Firemen's Retirement Fund (FRF), and two defined contribution pension trust funds within the PERSI Choice Plan. PERSI also administers one agency fund, the Sick Leave/Insurance Reserve Fund. Through September 2001, PERSI also administered another defined contribution plan, the Idaho Super Saver, State of Idaho 401(k) Plan, which was subsequently merged into the PERSI Choice 401(k) Plan.

Financial Highlights

- Plan net assets for all pension funds administered by PERSI decreased \$445.0 million during the fiscal year 2002. The decrease was primarily due to the downward turn of the stock market. Each fund, except the PERSI Choice Plan experienced a decrease in net assets.

PERSI Base Plan	(\$433,543,264)
Firemen's Retirement Fund	(18,895,034)
PERSI Choice Plan	31,108,484
Idaho Super Saver 401(k) Plan	<u>(23,719,926)</u>
Total Decrease in Plan Net Assets	<u>(\$445,049,740)</u>

As noted above, the Idaho Super Saver 401(k) Plan was merged into the PERSI Choice Plan, which is why the plan net assets for the Idaho Super Saver show such a large decrease and the PERSI Choice Plan shows such a large increase.

- Investments for the two defined benefit plans, the PERSI Base Plan and the FRF, are pooled. For the fiscal year ended June 30, 2002, the rate of return on the pooled investment assets was a negative 7.1 percent with a negative 6.1 percent for the prior year. Adverse market conditions were the primary cause of this decline over the last two years. The net investment loss for all of the funds administered by PERSI for the fiscal year ended June 30, 2002, was \$501.6 million.

Net Investment Loss	
PERSI Base Plan	(\$480,677,470)
Firemen's Retirement Fund	(14,346,736)
PERSI Choice Plan	(3,834,283)
Idaho Super Saver 401(k) Plan	<u>(2,797,165)</u>
Total Net Investment Loss	<u>(\$501,655,654)</u>

- As of June 30, 2002, and 2001, the funding ratio (actuarial value of assets divided by actuarial accrued liability) for each of the defined benefit plans was:

	<u>2002</u>	<u>2001</u>
PERSI Base Plan	84.9%	97.2%
Firemen's Retirement Fund	60.4%	63.4%

In 2002, deductions to net assets of \$297.0 million and losses on investments of \$495.0 million exceeded contributions and other income of \$339.6 million by \$452.4 million. This net decrease brought the Plan's net asset base to \$6.3 billion. For actuarial calculations, PERSI's actuary uses market value to determine the actuarial value of assets. For the July 1, 2002 valuation, the actuarial value of assets was \$6.2 billion. The aggregate actuarial liability for all PERSI

employers was \$7.2 billion. On an actuarial basis, the assets held currently fund 84.9 percent of this liability.

PERSI's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding ratio listed above gives an indication of how well this objective has been met at a specific point in time. The higher the funding ratio, the better the plan is funded. The funding ratio for FY 2000, prior to the market decline, was 116.5 percent. For more information and history of the funding ratio, see the Schedule of Funding Progress on page 21 of this report. The actuarial funding ratio for the two defined benefit plans declined because of investment losses.

Using the Annual Report

This discussion and analysis is intended to serve as an introduction to PERSI's financial statements. The financial section is comprised of four components: (1) fund financial statements, (2) notes to the financial statements, (3) required supplementary information, and (4) other supplementary schedules.

Fund Financial Statements – There are two financial statements presented for the fiduciary funds. The Statement of Plan Net Assets as of June 30, 2002, indicates the net assets available to pay future payments and gives a snapshot at a particular point in time. The Statement of Changes in Plan Net Assets for the year ended June 30, 2002, provides a view of the current year's activity. It details the additions and deductions to the individual funds and supports the change to the prior year's ending net asset value on the Statement of Net Assets. All pension fund statements are presented on a full accrual basis and reflect all trust activities as incurred.

Notes to the Financial Statements – The notes provide additional information essential for a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on pages 13-20 of this report.

Required Supplementary Information – The required supplementary information consists of a Schedule of Funding Progress and a Schedule of Employer Contributions and related notes concerning the funding status for the defined benefit pension trust funds. These schedules provide historical trend information, illustrating the changes in the funded status over time.

Other Supplementary Schedules – The additional schedules (Schedule of Administrative Expenses, Schedule of Investment Expenses, and Statement of Changes in Assets and Liabilities – Agency Fund) are presented for additional analysis.

Comparative Financial Statements

Defined Benefit Pension Trust Funds

The PERSI Base Plan and the Firemen's Retirement Fund are qualified plans under Internal Revenue Code and provide retirement and disability benefits to the employees of affiliated employers. Benefits are funded by member and employer contributions and by earnings on investments.

Defined Benefit Pension Trust Funds Net Assets

	As of June 30, 2002	As of June 30, 2001	(a.) \$ Change	% Change
Assets				
Cash	\$ 2,731,076	\$ 19,040,333	(\$16,309,257)	(85.7)%
Investments Sold Receivable	926,386,992	654,773,569	271,613,423	41.5
Other Receivables	42,514,918	52,621,262	(10,106,344)	(19.2)
Investments, at Fair Value	6,256,290,871	6,677,126,456	(420,835,585)	(6.3)
Prepaid Retiree Payroll	21,538,485	3,767,201	17,771,284	471.7
Capital Assets, Net of Accumulated Depreciation	7,388,436	8,805,493	(1,417,057)	(16.1)
Total assets	7,256,850,778	7,416,134,314	(159,283,536)	(2.1)
Liabilities				
Investments Purchased Payable	987,595,173	693,818,912	293,776,261	42.3
Benefits and Refunds Payable	328,778	482,855	(154,077)	(32.0)
Other Liabilities	6,072,695	6,540,117	(467,422)	(7.1)
Total Liabilities	993,996,646	700,841,884	293,154,762	41.8
Net Assets Available for Benefits	\$6,262,854,132	\$6,715,292,430	(\$452,438,298)	(6.7)

(a.) The fiscal year ended June 30, 2002, was most notably marked by an overall downturn in the investment markets. "Prepaid Retiree Payroll" was lower at the end of FY 2001 because of a timing error at the banking institution that slightly delayed the crediting of funds to retiree accounts; however, the balance at June 30, 2002, is at normal levels. "Other Receivables" is lower at the end of FY 2002 because of improvements in the timeliness of contribution collections.

The percent change in "Investments Sold Receivable" and "Investments Purchased Payable" fluctuates as the volume of securities bought and sold by PERSI's professional investment managers changes. These fluctuations are normal.

Defined Benefit Pension Trust Funds Changes in Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	(b.) \$ Change	% Change
Additions				
Employee Contributions	\$124,367,172	\$ 121,622,014	\$ 2,745,158	2.3%
Employer Contributions	215,108,401	129,447,924	85,660,477	66.2
Investment Income (Loss)	(495,024,206)	(460,395,077)	(34,629,129)	(7.5)
Other Additions	142,940	397,918	(254,978)	(64.1)
Total Additions	(155,405,693)	(208,927,221)	53,521,528	25.6
Deductions				
Benefits and Refunds Paid	290,066,704	287,037,348	3,029,356	1.1
Administrative Expenses	6,945,939	5,830,224	1,115,715	19.1
Other Deductions	19,962	56,560,935	(56,540,973)	(100.0)
Total Deductions	297,032,605	349,428,507	(52,395,902)	(15.0)
Changes in Net Assets Available for Benefits	(\$452,438,298)	(\$558,355,728)	\$105,917,430	19.0

(b.) During FY 2001, PERSI made its first Gain Sharing allocation of \$155,381,000. This impacts several line items in the tables above in the amount of change from 2001 to 2002. Gain Sharing is a method of allocating excess investment gains to PERSI's three major stake holders: members, retirees, and employers as described in Idaho Code, Section 59-1309. "Employer Contributions" for FY 2001 were \$77.7 million lower than normal due to the Gain Sharing credit allocated to employers. "Benefits Paid" to retirees in FY 2001 were higher by \$18.6 million due to Gain Sharing. "Other Deductions" were

\$56.6 million higher during FY 2001 due to the transfer out of Gain Sharing distributions to active member Choice Plan accounts.

Defined Contribution Pension Trust Fund

During FY 2002, PERSI administered two defined contribution plans. The PERSI Choice Plan, which is made up of both a 401(k) and 414(k) component and is a qualified plan under Internal Revenue Code, provides retirement benefits to members of the Defined Benefit Pension Trust Funds. The Choice Plan was created during FY 2001. The 401(k) component consists of employee voluntary contributions, rollover contributions, and some employer matching contributions. The 414(k) component represents the Gain Sharing allocation made to eligible PERSI members during FY 2001. The Idaho Super Saver 401(k) Plan was a qualified 401(k) defined contribution pension plan open only to the employees of the State of Idaho. Employees were allowed to make tax-deferred contributions through September 2001, when the Plan was merged into the PERSI Choice Plan.

PERSI Choice Plan Net Assets

	As of June 30, 2002	As of June 30, 2001	(a.) \$ Change	% Change
Assets				
Investments, at Fair Value	\$ 86,624,027	\$ 55,515,543	\$31,108,484	56.0%
Liabilities				
Investment and Other Liabilities	-	-	-	
Net Assets Available for Benefits	\$ 86,624,027	\$ 55,515,543	\$31,108,484	56.0%

(a.) Assets increased from FY 2001 to 2002 because of the transfer of approximately \$22.0 million from the Idaho Super Saver as shown in the following section.

PERSI Choice Plan Changes in Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	(b.) \$ Change	% Change
Additions				
Employee Contributions	\$ 9,608,354	-	\$ 9,608,354	100.0%
Employer Contributions	5,290,488	\$ 2,549,366	2,741,122	107.5
Investment Income (Loss)	(3,834,283)	(3,334,979)	(499,304)	(15.0)
Transfers In	35,004,407	57,013,597	(22,009,190)	(38.6)
Total Additions	46,068,966	56,227,984	(10,159,018)	(18.1)
Deductions				
Benefits and Refunds Paid	1,891,235	244,635	1,646,600	673.1
Administrative Expenses	67,719	3,968	63,751	1606.6
Transfers Out	13,001,528	463,838	12,537,690	2703.0
Total Deductions	14,960,482	712,441	14,248,041	1999.9
Changes in Net Assets Available for Benefits	\$ 31,108,484	\$ 55,515,543	(\$24,407,059)	(44.0)

(b.) "Transfers In and Out" normally include rollovers from other plans and member initiated transfers between investment options within the Plan. For both fiscal years 2002 and 2001, the increase in "Transfers In" include large, infrequent events. In 2001, the increase was due to the Gain Sharing transfer of \$56.6 million in 2001 from the PERSI Base Plan. In 2002, the increase was due to the \$22.0 million transfer of the balance of the Idaho Super Saver 401(k) Plan net assets as of September 30, 2001, into the PERSI Choice Plan, at which point the Super Saver Plan was closed. In addition, that transfer is

a large part of the increase to Investments of \$31.1 million. Also, beginning July 1, 2001, participating employees and employers were allowed to make voluntary contributions. The increase in “Benefits Paid” and “Administrative Expenses” from FY 2001 to FY 2002 is due to the Plan being implemented half-way through the first year.

Idaho Super Saver 401(k) Plan Net Assets

	As of June 30, 2002	As of June 30, 2001	% Change
Assets			
Investments, at Fair Value	-	\$ 23,719,926	(100.0)%
Liabilities			
Investment and Other Liabilities	-	-	
Net Assets Available for Benefits	-	\$ 23,719,926	(100.0)

Idaho Super Saver 401(k) Plan Changes in Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	% Change
Additions			
Employee Contributions	\$ 1,662,156	\$ 5,911,090	(71.9)%
Employer Contributions	-	-	-
Investment Income (Loss)	(2,797,165)	(2,397,106)	(16.7)
Other Additions	1,801,985	-	100.0
Total Additions	666,976	3,513,984	(81.0)
Deductions			
Benefits and Refunds Paid	575,345	654,904	(12.1)
Administrative Expenses	20,930	40,079	(47.8)
Other Deductions	23,790,627	-	100.0
Total Deductions	24,386,902	694,983	3409.0
Changes in Net Assets Available for Benefits	(\$23,719,926)	\$ 2,819,001	(941.4)

For FY 2002, the activity is significantly lower than FY 2001 because this account was merged into the PERSI Choice Plan in September 2001, as discussed above. Fiscal Year 2002 represents activity for three months while FY 2001 covers a full year. As a result, variances in the comparisons between the years appear unusual.

Agency Fund

The Sick Leave/Insurance Reserve Fund provides payment of retiree health insurance premiums on behalf of their former employers, based on accumulated unused sick leave at the time of retirement. PERSI administers these funds.

Agency Fund Balance Sheet

	As of June 30, 2002	As of June 30, 2001	\$ Change	% Change
Assets				
Cash	\$ 30,844	\$ 39,643	(\$ 8,799)	(22.2)%
Receivables	779,826	1,129,875	(350,049)	(31.0)
Investments, at Fair Value	123,299,472	123,781,970	(482,498)	(0.4)
Total Assets	\$124,110,142	\$124,951,488	(\$ 841,346)	(0.7)
Liabilities				
Due to State Agencies and School Districts	\$124,095,270	\$124,922,123	(826,853)	(0.7)
Other Liabilities	14,872	29,365	(14,493)	(49.4)
Total Liabilities	\$124,110,142	\$124,951,488	(\$ 841,346)	(0.7)

Plan Membership

This table reflects PERSI Base Plan and Choice Plan membership at the beginning and end of the fiscal year.

	Changes in Plan Membership					
	Base Plan			Choice Plan		
	2002	2001	Change	2002	2001	Change
Active Participants	62,376	62,125	.4%	45,661	44,198	3.8%
Vested	38,139	37,691	1.2			
Non-Vested	24,237	24,434	(.8)			
Retirees & Beneficiaries	24,018	23,253	3.3	1,176	1,135	(11.9)
Terminated Vested	7,330	6,585	11.3	4,755	5,163	(11.5)

While the above table reflects changes in active participants, the following table demonstrates the changes in retirees and beneficiaries during the period.

Changes in Retirees & Beneficiaries (Base Plan)

Beginning (7/1/01)	23,253
Retirements	1,009
Death of Retiree/Beneficiary	(244)
Ending (7/1/02)	<u>24,018</u>

Investment Activities

Long-term asset growth is vital to the Defined Benefit Plan's current and continued financial stability. Therefore, trustees have a fiduciary responsibility to act with prudence and discretion when making plan investment decisions. To assist the Board in this area, a comprehensive formal investment policy is updated periodically. As managers are added, specific detailed investment guidelines are developed, adopted, and included as an addendum to each manager's agreement.

Portfolio performance is reviewed monthly by the Board and its consultants. Performance is evaluated individually by money manager style, collectively by investment type and for the aggregate portfolio. Investment types include both domestic and international global equities, domestic and international global fixed income, and real estate.

Economic Factors

PERSI, like any pension fund, has a broad range of opportunities for investment in the open market, as well as many choices for asset allocation and investment managers. For purposes of comparison, the table of Investment Results in the Investment Section indicates various index returns, which are reflective of the market environment available.

As a result of the current amortization period calculation being 39.3 years, the Board must consider contribution rate increases. The maximum amortization period allowed by state law is 25 years. The Board has several options including how much and how soon to increase rates. They may postpone an increase for up to two periods of one year each during any four consecutive years.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS - PENSION FUNDS AND BALANCE SHEET - AGENCY FUND JUNE 30, 2002 WITH COMPARATIVE TOTALS FOR JUNE 30, 2001

ASSETS	Pension Funds				Agency Fund	Totals	
	PERSI Base Plan	Firemen's Retirement Fund	PERSI Choice Plan		Sick Leave/ Insurance Reserve Fund	2002	2001
			414(k)	401(k)			
CASH AND CASH EQUIVALENTS	\$ 2,651,690	\$ 79,386			\$ 30,844	\$ 2,761,920	\$ 19,079,976
INVESTMENTS, AT FAIR VALUE:							
Fixed income investments:							
Domestic	1,539,927,849	46,102,145			54,591,337	1,640,621,331	1,642,249,607
International	15,530,423	464,948				15,995,371	26,911,853
Idaho commercial mortgages	297,656,849	8,911,209				306,568,058	278,597,454
Short-term investments	174,444,899	5,222,507				179,667,406	181,761,612
Real estate	32,478,029	972,323				33,450,352	38,486,190
Equity Securities:							
Domestic	2,304,787,572	69,000,408			68,708,135	2,442,496,115	3,013,011,899
International	1,577,580,437	47,229,383				1,624,809,820	1,503,712,614
Private equity	132,029,218	3,952,672				135,981,890	116,177,197
Mutual funds			\$ 48,133,756	\$ 38,490,271		86,624,027	79,235,469
Total investments	6,074,435,276	181,855,595	48,133,756	38,490,271	123,299,472	6,466,214,370	6,880,143,895
RECEIVABLES:							
Investments sold	899,538,547	26,848,445				926,386,992	654,773,569
Contributions	9,819,140	559,545				10,378,685	19,186,217
Interest and dividends	31,204,864	931,369				32,136,233	33,435,045
Total receivables	940,562,551	28,339,359				968,901,910	707,394,831
ASSETS USED IN PLAN OPERATIONS, NET (Note 5)	7,388,436					7,388,436	8,805,493
DUE FROM OTHER FUNDS					779,826	779,826	1,129,875
RETIREE PAYROLL IN PROCESS	21,538,485					21,538,485	3,767,201
Total Assets	\$ 7,046,576,438	\$ 210,274,340	\$ 48,133,756	\$ 38,490,271	\$ 124,110,142	\$ 7,467,584,947	\$ 7,620,321,271

(continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF PLAN NET ASSETS - PENSION FUNDS AND BALANCE SHEET - AGENCY FUND JUNE 30, 2002 WITH COMPARATIVE TOTALS FOR JUNE 30, 2001

LIABILITIES AND FUND BALANCE	Pension Funds				Agency Fund	Totals	
	PERSI Base Plan	Firemen's Retirement Fund	PERSI Choice Plan		Sick Leave/ Insurance Reserve Fund	2002	2001
			414(k)	401(k)			
LIABILITIES:							
Due to state agencies and school districts					\$ 124,095,270	\$ 124,095,270	\$ 124,922,123
Accrued liabilities	\$ 5,146,267	\$ 146,602			14,872	5,307,741	5,439,607
Benefits and refunds payable	328,778					328,778	482,855
Due to other funds	779,826					779,826	1,129,875
Investments purchased	<u>958,972,800</u>	<u>28,622,373</u>				<u>987,595,173</u>	<u>693,818,912</u>
Total liabilities	<u>965,227,671</u>	<u>28,768,975</u>			<u>124,110,142</u>	<u>1,118,106,788</u>	<u>825,793,372</u>
NET ASSETS HELD IN TRUST FOR PENSION							
BENEFITS (see supplemental schedules of funding progress)	<u>\$ 6,081,348,767</u>	<u>\$ 181,505,365</u>	<u>\$ 48,133,756</u>	<u>\$ 38,490,271</u>	<u>\$ -</u>	<u>\$ 6,349,478,159</u>	<u>\$ 6,794,527,899</u>

See notes to financial statements.

(concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS - PENSION FUNDS YEAR ENDED JUNE 30, 2002 WITH COMPARATIVE TOTALS FOR YEAR ENDED JUNE 30, 2001

	Pension Funds					Totals	
	PERSI Base Plan	Firemen's Retirement Fund	PERSI Choice Plan		Idaho Super Saver - 401(k)	2002	2001
			414(k)	401(k)			
ADDITIONS:							
Contributions:							
Members	\$ 124,140,214	\$ 226,958		\$ 9,608,354	\$ 1,662,156	\$ 135,637,682	\$ 127,533,104
Employers	205,560,096	9,548,305		5,290,488		220,398,889	131,997,290
Transfers in	5,725		\$ 3,113,839	31,890,568	1,801,985	36,812,117	57,024,773
Total contributions	329,706,035	9,775,263	3,113,839	46,789,410	3,464,141	392,848,688	316,555,167
Investment income (loss):							
Net appreciation (depreciation) in fair value of investments	(637,659,435)	(19,032,163)	(3,693,356)	(548,645)	(2,871,223)	(663,804,822)	(669,224,044)
Interest, dividends and other investment income	182,668,726	5,452,097	21,843	385,875	74,058	188,602,599	228,806,992
Less: investment expenses	(25,686,761)	(766,670)				(26,453,431)	(25,710,110)
Net investment income (loss)	(480,677,470)	(14,346,736)	(3,671,513)	(162,770)	(2,797,165)	(501,655,654)	(466,127,162)
Other, net	137,215					137,215	386,742
Total additions	(150,834,220)	(4,571,473)	(557,674)	46,626,640	666,976	(108,669,751)	(149,185,253)
DEDUCTIONS:							
Benefits and refunds paid to plan members and beneficiaries	275,743,143	14,323,561	1,109,000	782,235	575,345	292,533,284	287,936,887
Administrative expenses	6,945,939		70,428	(2,709)	20,930	7,034,588	5,874,271
Transfers out	19,962		3,099,603	9,901,925	23,790,627	36,812,117	57,024,773
Total deductions	282,709,044	14,323,561	4,279,031	10,681,451	24,386,902	336,379,989	350,835,931
INCREASE (DECREASE) IN NET ASSETS	(433,543,264)	(18,895,034)	(4,836,705)	35,945,189	(23,719,926)	(445,049,740)	(500,021,184)
NET ASSETS HELD IN TRUST, BEGINNING OF YEAR	6,514,892,031	200,400,399	52,970,461	2,545,082	23,719,926	6,794,527,899	7,294,549,083
NET ASSETS HELD IN TRUST, END OF YEAR	\$ 6,081,348,767	\$ 181,505,365	\$ 48,133,756	\$ 38,490,271	\$ 0	\$ 6,349,478,159	\$ 6,794,527,899

See notes to financial statements.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. GENERAL DESCRIPTION OF THE FUNDS

General – The Public Employee Retirement System of Idaho (the System) is the administrator of four pension plans including two defined benefit retirement plans, the Public Employee Retirement Fund Base Plan (PERSI) and the Firemen’s Retirement Fund (FRF); and two defined contribution plans, the Idaho Super Saver, State of Idaho 401(k) Plan and the Public Employee Retirement Fund Choice Plan. In addition, the System administers one agency fund, the Sick Leave/Insurance Reserve Fund.

Reporting Entity – The System is a component unit of the State of Idaho and is included in the State of Idaho Comprehensive Annual Financial Report. The basic financial statements of the System include the financial activities of all of the above funds. A retirement board (the Board), appointed by the Governor and confirmed by the state senate, manages the System, which includes selecting the funding agents and establishing funding policy.

Defined Benefit Retirement Plans – PERSI and FRF are both cost-sharing, multiple-employer defined benefit retirement plans that provide benefits based on members’ years of service, age, and highest average salary. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries.

Statutes governing PERSI are Title 59, Chapter 13 and Title 50, Chapter 15 of Idaho Code. Statutes governing FRF are Title 72, Chapter 14 of Idaho Code.

Members become fully vested in their retirement benefits with five years of credited service (5 months for elected or appointed officials). Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. The annual service retirement allowance for each month of credited service is 2.0% (2.3% police/firefighters) of the average monthly salary for the highest consecutive 42 months.

State agencies, school districts, cities, counties, highway districts, water and sewer districts, and other political subdivisions contribute to the System. As of June 30, 2002, the number of participating employer units in PERSI was:

Cities	142
School districts	126
Highway and water districts	119
State subdivisions	99
Counties	39
Other	<u>134</u>
	<u>659</u>

As of June 30, 2002, the number of benefit recipients and members in the System consisted of the following:

Members, retirees and beneficiaries currently receiving benefits during the fiscal year and terminated employees entitled to benefits but not yet receiving them:

Members:	
Active	62,376
Terminated and vested	7,330
Retirees and beneficiaries	24,018

FRF has 23 participating employer units all consisting of fire departments participating in PERSI. As of June 30, 2002, there were 81 active members and 558 retired members or beneficiaries collecting benefits from FRF. The FRF covers a closed group of firefighters who were hired before October 1, 1980 and who receive benefits in addition to those provided under PERSI. The cost of these additional benefits is paid by FRF member and employer contributions and receipts from a fire insurance premium tax.

The benefit payments for PERSI and FRF are calculated using a benefit formula adopted by the Idaho Legislature. PERSI is required to provide a 1% minimum cost of living increase per year provided the Consumer Price Index increases 1% or more. The Retirement Board has the authority to provide higher PERSI cost of living increases to a maximum of the Consumer Price Index movement or 6%, whichever is less; however, any amount above the 1% minimum is subject to review by the Idaho Legislature. The cost of living increase for the FRF is based on the increase in the statewide average firefighter's wage.

PERSI and FRF benefits are funded by contributions from members and employers and earnings from investments. Additional FRF funding is obtained from receipts from a state fire insurance premium tax. Member and employer contributions are paid as a percentage of applicable member compensation. PERSI member contribution rates are defined, by state law, as a percentage of the employer contribution rate. FRF member contribution rates are fixed by state law. Employer contribution rates are recommended by periodic actuarial valuations and are subject to the approval of the Retirement Board and limitations set forth in state statute. Valuations are based on actuarial assumptions, the benefit formulas, and employee groups of the System.

Costs of administering the fund are financed through the contributions and investment earnings of the System.

Upon termination of employment, accumulated member contributions plus interest, accrued at 4.82% January 1, 2001 through June 30, 2002 (12.86% July 1, 2001 to December 31, 2001) compounded monthly per annum, are refundable. Withdrawal of such accumulated contributions results in forfeiture of the member's accrued benefit; however, state law does include provisions for reinstatement of forfeited service upon repayment of the accumulated contributions plus interest.

Defined Contribution Retirement Plans – The PERSI Choice Plan and the Idaho Super Saver, State of Idaho 401(k) Plan are both defined contribution retirement plans.

Statutes governing these plans are Idaho Code Title 59, Chapter 13. Participants direct their investment mix without restriction and may elect to change their salary deferral every pay period.

The *PERSI Choice Plan* is a defined contribution pension plan made up of a qualified 401(k) component and a 414(k) component. The assets of the components of this plan are commingled. The 401(k) portion of the Plan is open to all active PERSI Base Plan members and was established February 1, 2001. On May 1, 2001, this plan became open to voluntary employer matching contributions at rates determined by the employers. Beginning July 1, 2001, employees could make tax-deferred contributions at 1 - 23% of their gross salary. The 414(k) portion of the Plan was established for Gain Sharing allocations from PERSI. The Gain Sharing amount (if any) is based on funding levels in the PERSI Base Plan. Eligibility for Gain Sharing requires twelve months of active PERSI membership as defined in Idaho statutes and PERSI rules. On February 1, 2001, all eligible PERSI Base Plan members who were active as of June 30, 2000, and eligible to receive Gain Sharing contributions, received an allocation.

The System entered into a contract with Mellon HR Solutions, the plan recordkeeper, for services relating to eleven investment options, which are mutual or collective funds and include the PERSI Total Return Fund, seven equity funds, two fixed income funds, and a stable value fund. Participants may allocate their assets in 1% increments among these options; however, if no allocation preference is indicated, a default investment election to the PERSI Total Return Fund is made.

The PERSI Choice Plan has 659 employer units eligible to have participating employees. As of June 30, 2002, there were 51,542 participants in the PERSI Choice Plan. The administrative expenses of the Plan, most of which are paid to Mellon HR Solutions, are funded by PERSI.

The *Idaho Super Saver, State of Idaho 401(k) Plan* was a qualified 401(k) defined contribution pension plan, open to all employees of the State of Idaho. Through September 2001, this plan allowed participants to make tax-deferred contributions at 1 - 23% of their gross salary.

This program was originally organized to provide investment management services to state employees. The System entered into a contract with Zurich Scudder, Inc. (Scudder), the plan custodian and recordkeeper, for services relating to nine investment options managed by Scudder that include U.S. Treasury Money Mutual Fund, Income Mutual Fund, Balance Mutual Fund, and six equity mutual funds.

The Plan has 99 employer units eligible to have participating employees. As of September 30, 2001, there were 2,977 participants in the Idaho Super Saver 401(k) Plan. The administrative expenses of the Plan, most of which are paid to Scudder, are funded by the participants of the Plan.

In October 2001, the Idaho Super Saver 401(k) Plan was merged with the PERSI Choice Plan.

Sick Leave/Insurance Reserve Fund – Statutes governing these programs are Idaho Code, Sections 67-5339, 33-1216 and 33-1228.

School districts and state agencies in Idaho provide payment of postretirement health insurance premiums on behalf of former employees based on unused accumulated sick leave at their retirement date. The System acts as an agent for these funds on behalf of the employers, who fund the program by remitting a percentage of payroll to the System to cover future insurance premiums. Employers are responsible for any unfunded benefit obligations.

School District Employees – For school district employees, the unused sick leave amount available for benefit is based on one-half of their sick leave balance and rate of compensation at retirement.

State Employees – State employees are limited to the number of allowable hours of sick leave they may use as part of the unused sick leave program as follows:

Credited Hours of State Service	Maximum Allowable Sick Leave Hours
0 - 10,400 (0 - 5 years)	420
10,401 - 20,800 (5 - 10 years)	480
20,801 - 31,200 (10 - 15 years)	540
31,201 + (15 years or more)	600

Members may use one-half of sick leave hours accrued up to the allowable maximum multiplied by their rate of compensation at retirement.

The rate for state agency and school district contributions was .65% and 1.15% of covered salary at June 30, 2002, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The System’s basic financial statements are prepared utilizing the accrual basis of accounting for the pension funds and the modified accrual basis of accounting for the agency fund. For the financial statements of the pension funds, employee and employer contributions are recognized as additions to net assets in the period in which employee services are performed, investment income is recognized when earned, and benefit payments and refunds and other expenses are recorded when incurred. The pension funds are accounted for on a flow of economic resources measurement focus. The System adheres to Statement No. 25 of the Governmental Accounting Standards Board (GASB No. 25), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Investments – The System’s investments are presented at fair value. Purchases and sales are recorded at the trade date. Investments held by PERSI and FRF are commingled.

The Board utilizes and directs individual fund managers to provide whatever investment management and custodial functions the Board has determined best achieves the System’s investment objectives. Each fund manager is generally granted full discretion in making investment decisions, within asset allocation policy, portfolio policy, and other special restrictions set by the Board. The Board monitors overall investment performance and periodically evaluates the performance of each fund manager. The Board in its administration of the System and management of the investment program is guided by the Idaho Uniform Prudent Investor Act, Sections 68-501 through 68-514 of the Idaho Code and of fiduciary responsibilities in the Idaho Code, Section 59-1301, and is empowered in its sole discretion to limit, control, and designate the types and amounts of investments.

The fair value of investments is based on published market prices and quotations from major investment brokers when available. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments has been estimated based on independent appraisals. Short-term investments are reported at market value, when published market prices and quotations are available, or at cost plus accrued interest, which approximate market value.

The System purchases forward contracts for certain international investments and United States agency-guaranteed collateralized mortgage obligations for the purpose of enhancing liquidity, reducing transaction or other costs, or partially hedging an existing exposure. The System does not incur any costs for forward contracts until the settlement date. Future potential obligations for the forward contracts are not recognized until the contract expiration date.

Assets used in Plan Operations – These assets represent buildings and computer software development costs used by the System and are recorded at cost. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets. The estimated useful life for buildings is 30 years. The estimated useful life of the computer software development costs is five years.

“Totals” – The information as of and for the year ended June 30, 2001, presented in the “Totals” column on the accompanying combining basic financial statements, does not present consolidated financial information and is not necessary for a fair presentation of the basic financial statements but is presented only to facilitate financial analysis and for comparison purposes.

New Accounting Standards – The System has adopted Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments*, and Statement No. 37, *Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2001. The adoption of these statements did not have an impact on the financial status of the pension funds because these statements relate to reporting conventions only.

3. CASH AND CASH EQUIVALENTS

The System’s cash and cash equivalents are deposits at financial institutions. Such deposits for the year ended June 30, 2002 are categorized below to give an indication of the level of collateral risk assumed by the System at year end. Category 1 includes deposits that are insured or collateralized with securities held by the System or its agent in the System’s name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the System’s name. Category 3 includes uninsured deposits that are uncollateralized. The carrying amount of deposits, which approximates the bank balances, by such categories at June 30, 2002, consisted of the following:

Category 1	\$ 100,000
Category 2	-
Category 3	<u>661,204</u>
Total	<u>\$ 761,204</u>

The following is a reconciliation of the amounts recorded as deposits on the combining statement of plan net assets and the amounts categorized above as deposits:

Deposits reported on combining statement of plan net assets	\$2,761,920
Less: deposits held by the State Treasurer not categorized	<u>2,000,716</u>
Total deposits categorized	<u>\$ 761,204</u>

4. INVESTMENTS

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 2002. Category 1 includes investments that are insured or registered, or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the System's name; or by the counterparty's trust department or agent but not in the System's name.

	<u>Investment Risk Category</u>			
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>
Fixed income investments	\$1,602,025,365	None	None	\$1,602,025,365
Domestic equities	2,373,787,980	None	None	2,373,787,980
International equities	<u>1,624,809,820</u>	None	None	<u>1,624,809,820</u>
	<u>\$5,600,623,165</u>			<u>5,600,623,165</u>
Investments not subject to categorization due to their nature:				
Pooled short-term investment funds				179,667,406
Idaho commercial mortgages				306,568,058
Real estate				33,450,352
Private equity				135,981,890
Mutual fund holdings in 401(k) plan				86,624,027
Index fund and fixed income fund holdings in Agency Fund				<u>123,299,472</u>
				<u>865,591,205</u>
Total investments				<u>\$6,466,214,370</u>

For the year ended June 30, 2002, Mellon Trust was the global custodian for the majority of the investments of the combined PERSI, FRF, and PERSI Choice Plan. The pooled short-term investment funds are bank-maintained collective investment funds established under Massachusetts law pursuant to a Declaration of Trust dated February 27, 1967, as amended. They maintain their tax exempt status under Revenue Ruling 81-100 and are exempt from registration as mutual funds under Section 3(c)(11) of the Investment Company Act of 1940. Participation is limited to qualified employee benefit plans and government plans for which Boston Safe Deposit Trust Company, or its bank affiliates, maintain a trust, agency or custody relationship. The fair value of the position in the external investment pool for non-SEC registered investments is the same as the value of the pool shares.

Net appreciation (depreciation) in fair value of investments includes realized and unrealized gains and losses on investments during the year. The calculation of net realized gain (loss) on sale of investments is independent of the calculation of net appreciation in fair value of investments. Net unrealized gain (loss) in fair value of investments sold in the current year, which had been held for more than one year, are included in net appreciation in fair value of investments as reported in prior years and the current year. Components of net appreciation in the fair value of investments are as follows:

	PERSI Base Plan	FRF	PERSI Choice Plan	Idaho Super Saver 401(k)
Net realized gain (loss) on sale of investments	\$ (216,764,125)	\$ (6,469,739)	\$ 206,289	\$ (213,075)
Net unrealized gain (loss) in fair value of investments	<u>(420,895,310)</u>	<u>(12,562,424)</u>	<u>(4,448,290)</u>	<u>(2,658,148)</u>
Net appreciation (depreciation) in fair value of investments	<u>\$ (637,659,435)</u>	<u>\$ (19,032,163)</u>	<u>\$ (4,242,001)</u>	<u>\$ (2,871,223)</u>

The System has entered into forward foreign exchange contracts to purchase or sell currency at various dates in the future at a specific price. The value of foreign currency to be purchased or sold fluctuates continuously. As such, it is possible that the foreign currency market price at the specified time to purchase or sell may be lower than the price at which the System is committed to buy or sell. The System could sell the forward contract at a loss, or if it were to continue to hold the contract, the System may make a termination payment to the counterparty to cancel its obligation under the contract and then buy the currency on the open market. The System is also exposed to the failure of the counterparty to fulfill the contract. The terms of the contract include provisions for recovering the cost in excess of the guaranteed price from the counterparty should the System have to purchase currency on the open market. Unrealized losses of \$6,852,738 at June 30, 2002 were recognized, which represents the loss which would occur from executing forward foreign exchange contracts at June 30, 2002.

5. ASSETS USED IN PLAN OPERATIONS

Assets used in plan operations at June 30, 2002 consist of the following:

Buildings and improvements	\$ 5,428,864
Less: accumulated depreciation	<u>(2,068,946)</u>
	3,359,918
Computer software development costs	6,331,360
Less: accumulated amortization	<u>(2,302,842)</u>
	<u>4,028,518</u>
	<u>\$ 7,388,436</u>

Depreciation expense on the buildings and improvements for the year ended June 30, 2002 is \$152,275.

Amortization expense included in administrative expenses for the year ended June 30, 2002 is \$1,266,272.

6. CONTRIBUTIONS

The System's funding policy for PERSI and FRF is determined by the Board within limitations, as defined by Idaho law. The funding policy provides for periodic employer contributions at actuarially determined rates, that expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the Entry Age Actuarial Cost Method for PERSI and a modified aggregate funding method for FRF. Under the Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the earnings of the individual between entry age and assumed exit age. FRF amortizes the difference between the value of the FRF benefits not provided by PERSI and the FRF assets over the earnings of all firemen. PERSI amortizes any unfunded actuarial accrued liability based on a level percentage of payroll. FRF amortizes any unfunded liability based on a level dollar amount. The maximum amortization period for PERSI permitted under Section 59-1322, Idaho Code, is 25 years. The maximum amortization period for FRF permitted under Section 59-1394, Idaho Code, is 50 years. The payroll for employees covered by PERSI and FRF was approximately \$2,009,000,000 and \$35,000,000, respectively.

Actuarial valuations of PERSI and FRF are performed annually. The last valuations were performed as of July 1, 2002.

Normal cost is 13.65% of covered payroll and the amount available to amortize the unfunded actuarial liability is 2.17% of covered payroll for PERSI. There is no normal cost associated with FRF, and all contributions to FRF are available to pay benefits and reduce the unfunded actuarial liability. The contribution rates for the year ended June 30, 2002, are as follows.

Employee Group	Employer	Employee
PERSI:		
General	9.77 %	5.86 %
Police and fire	10.01 %	7.21 %
Optional Retirement Plan employees of higher education:		
Colleges and universities	3.03 %	
Junior colleges	3.83 %	

FRF employer and employee contribution rates for firemen hired before October 1, 1980 are 25.89% and 4.24%, respectively, in addition to the PERSI Police and Fire rates shown above. The employer contribution rate for firemen hired after October 1, 1980 is 17.24%, in addition to the PERSI Police and Fire rate shown above.

7. COMMITMENTS

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately \$694,000 of outstanding purchase orders and purchase commitments are encumbered by the System but not reported in the basic financial statements at June 30, 2002.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SUPPLEMENTAL SCHEDULES OF FUNDING PROGRESS - PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND FOR FISCAL YEARS 1997 - 2002 (Dollars in millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) (a.)	(3) PV of Future ORP Contributions	(4) Unfunded AAL (UAAL) (2) - (1) - (3) (b.)	(5) Funded Ratios (1) : [(2) - (3)] (c.)	(6) Annual Covered Payroll (d.)	(7) UAAL as a Percentage of Covered Payroll (4) : (6)
PERSI							
July 1, 1997	\$ 4,609.8	\$ 4,801.9	\$ 63.2	\$ 128.9	97.3 %	\$ 1,575.5	8.2 %
July 1, 1998	5,488.2	5,060.0	65.7	(493.9)	109.9	1,627.7	(30.3)
July 1, 1999	6,171.9	5,536.8	68.9	(704.0)	112.9	1,733.5	(40.6)
July 1, 2000	7,032.9	6,105.1	70.5	(998.3)	116.5	1,827.2	(54.6)
July 1, 2001	6,492.8	6,751.3	72.2	186.3	97.2	1,975.3	9.4
July 1, 2002	6,062.1	7,209.5	71.7	1,075.7	84.9	2,047.1	52.5

- (a.) Actuarial present value of benefits less actuarial present value of future normal costs based on entry age actuarial cost method.
- (b.) Actuarial accrued liabilities less actuarial value of assets and present value of future ORP contributions. Amounts reported in this table do not include the value of the discretionary COLA or Gain Sharing, allocations granted after the valuation date.
- (c.) Funded Ratio is the ratio of the actuarial value of assets over the actuarial accrued liabilities less the present value of future ORP contributions.
- (d.) Covered Payroll includes compensation paid to all active employees on which contributions are calculated.

Actuarial Valuation Date (a.)	(1) Actuarial Market Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratios (1) : (2)	(5) Annual Covered Payroll (b.)	(6) UAAL as a Percentage of Covered Payroll (3) : (5)
FRF						
July 1, 1997	\$ 132.1	\$ 246.7	\$ 114.6	53.5 %	\$ 24.6	465.9 %
July 1, 1998	179.0	284.0	105.0	63.0	28.0	375.0
July 1, 1999	179.0	284.0	105.0	63.0	28.0	375.0
July 1, 2000	217.8	293.4	75.6	74.2	30.8	245.5
July 1, 2001	200.4	316.2	115.8	63.4	32.9	352.0
July 1, 2002	181.5	300.3	118.8	60.4	34.4	345.3

- (a.) FRF actual valuations were performed biennially through July 1, 1999, and annually thereafter.
- (b.) Annual covered payroll includes compensation paid to all firemen hired prior to October 1, 1980. Annual Covered Payroll differs from Active Member Valuation Payroll, which is an annualized compensation of only those members who were active on the actuarial valuation date.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SUPPLEMENTAL SCHEDULES OF EMPLOYER CONTRIBUTIONS - PUBLIC EMPLOYEE RETIREMENT FUND AND FIREMEN'S RETIREMENT FUND FOR FISCAL YEARS 1997 - 2001 (Dollars in millions)

Year Ended June 30	PERSI Employer Contributions			FRF Employer Contributions (c.)		
	Total Employer Contributions (Statutory) (a.)	Annual Required Contribution (ARC) (b.)	Percentage Contributions	Total Employer Contributions	Annual Required Contribution	Percentage Contributions
1997	\$ 185.9	\$ 185.9	100.0 %	\$ 7.5	\$ 9.5	79.2 %
1998	172.3	172.3	100.0	8.0	9.5	84.7
1999	173.1	173.1	100.0	8.6	8.6	99.1
2000	182.9	155.7	117.5	8.7	8.6	100.4
2001	197.9	152.2	130.0	9.2	6.3	147.3
2002	205.5	155.1	132.5	9.6	9.3	102.2

- (a.) For 2001, this includes \$77,690,500 of gain sharing credits. Actual cash contributions were \$120,220,992.
- (b.) For PERSI employers, the Annual Required Contribution (ARC) is equal to the normal cost rate plus a 25-year amortization of any Unfunded Actuarial Accrued Liability or minus a 25-year amortization of any Funding Reserve amount. The ARC determined as of the valuation date is assumed applicable for employers commencing October 1 of the calendar year following the valuation date. For Optional Retirement Plan (ORP) employers, the ARC is equal to 3.03% of salaries of university members in the ORP until 2015 and 3.83% of salaries of junior college members in the ORP until 2011.
- (c.) FRF actuarial valuations were performed biennially through July 1, 1999, and annually thereafter.

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES YEAR ENDED JUNE 30, 2002

1. ACTUARIAL INFORMATION

The information presented in the required supplemental schedules was prepared for GASB disclosure purposes and may differ from the funding determination as of the dates indicated. Additional information as of the latest actuarial valuation for GASB purposes is as follows:

	PERSI	FRF
Valuation date	July 1, 2002	July 1, 2002
Actuarial cost method	Entry age actuarial cost	Entry age actuarial cost
Amortization method	Level percentage of projected payroll	Level dollar amount
Remaining amortization period	25 years - Open	34 years - Closed
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	8.00 %	8.00 %
Projected salary increases	5.5% - 11.8%	4.75 %
- Includes salary inflation	4.75 %	4.75 %
Postretirement benefit increase	1.00 %	4.75 %
Implied price inflation rate	4.00 %	4.00 %

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUND YEAR ENDED JUNE 30, 2002

ASSETS	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
CASH	\$ 39,643	\$ 15,074,566	\$ 15,083,365	\$ 30,844
INVESTMENTS, AT FAIR VALUE	123,781,970	10,103,368	10,585,866	123,299,472
DUE FROM OTHER FUNDS	<u>1,129,875</u>	<u>14,712,981</u>	<u>15,063,030</u>	<u>779,826</u>
Total assets	<u>\$ 124,951,488</u>	<u>\$ 39,890,915</u>	<u>\$ 40,732,261</u>	<u>\$ 124,110,142</u>
LIABILITIES				
DUE TO STATE AGENCIES AND SCHOOL DISTRICTS	\$ 124,922,123	\$ 5,897,019	\$ 6,723,872	\$ 124,095,270
PAYABLES AND ACCRUED LIABILITIES	<u>29,365</u>	<u>67,438</u>	<u>81,931</u>	<u>14,872</u>
Total liabilities	<u>\$ 124,951,488</u>	<u>\$ 5,964,457</u>	<u>\$ 6,805,803</u>	<u>\$ 124,110,142</u>

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES YEAR ENDED JUNE 30, 2002

INVESTMENT AND RELATED SERVICES:

Baring Asset Management, Inc.	\$ 1,094,019
Credit Suisse Asset Management	427,485
Bloomberg LP	35,857
Brandes Investment Partners LP	1,256,190
Capital Guardian Trust Company	25,185
Chadwick, Saylor & Co., Inc.	105,977
Chisholm Partners	245,520
Clearwater Advisors, LLC	3,079
Columbus Circle Investors, Inc.	1,557,241
D.B. Fitzpatrick & Co., Inc.	1,430,275
Deutsche Bank	872,322
Dorn, Helliesen & Cottle	25,841
Furman Selz Investments	177,409
GMAC	27,332
Galen Associates	405,036
Genesis Asset Managers, Ltd.	874,302
Goense Bounds & Partners LP	108,525
Hamilton Lane Advisors, Inc.	237,684
Harvest Partners, Inc.	201,249
Lend Lease Rosen	1,340,166
Littlejohn & Company	396,837
McCown DeLeeuw & Company	445,161
Mellon Capital Management	587,111
Mellon Trust	2,290,098
MFS Institutional Advisors, Inc.	684,980
Mountain Pacific Investment Advisors, Inc.	857,164
Navis Partners	300,000
Pareto Partners	750,450
Providence Investments	684,222
Prudential Investments	396,100
R.V. Kuhns & Associates	28,083
Rowe Price International, Inc.	900,000
Saugatuck Capital Company	238,792
Schroder Capital Management International, Inc.	1,265,742
State Street Global Advisors	242,879
T3 Partnrs II, LP	302,305
TCW London International, Ltd.	939,671
Tukman Capital Management, Inc.	1,416,347
Wells Fargo Bank	66,229
Zesiger Capital Group	1,282,441

24,525,306

(continued)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF INVESTMENT EXPENSES YEAR ENDED JUNE 30, 2002

CONSULTING SERVICES:

Calhoun Law Group	\$ 19,375
Deloitte & Touche LLP	39,000
Foster, Pepper, Shefelman PLLC	168,036
Mellon HR Solutions	1,404,968
Milliman, Inc.	265,362
William M. Mercer, Inc.	31,383
	<u>1,928,124</u>
	<u>\$26,453,430</u>

(concluded)

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO

SCHEDULE OF ADMINISTRATIVE EXPENSES YEAR ENDED JUNE 30, 2002

	PERSI Base Plan	PERSI Choice Plan	Idaho Super Saver 401(k)
PORTFOLIO RELATED EXPENSES:			
Personnel expenses	\$ 334,552		
Operating expenses	84,258		
Capital outlay	<u>12,400</u>		
	431,210		
OTHER ADMINISTRATIVE EXPENSES:			
Personnel expenses	2,601,310		
Operating expenses	2,387,993	\$ 67,719	\$ 20,930
Capital outlay	106,879		
Building depreciation expense	152,275		
Software amortization expense	<u>1,266,272</u>		
	<u>6,514,729</u>	<u>67,719</u>	<u>20,930</u>
	<u>\$6,945,939</u>	<u>\$ 67,719</u>	<u>\$ 20,930</u>



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Retirement Board of the Public Employee Retirement System of Idaho:

We have audited the financial statements of the Public Employee Retirement System of Idaho (the System) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Retirement Board and management and is not intended to be and should not be used by anyone other than these specified parties.

November 12, 2002